

Submission for the House Ways and Means Committee Hearing,
“Impediments to Job Creation”

Taxes, Congress & Lobbyists

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Introduction – The people of America, the land of the free, are not really free because of high taxes and oppressive business regulations. Two major impediments to job creation are the IRS tax system, which is commonly accepted as being completely broken, and antibusiness regulations. This presentation will address the first of these, taxes. The tax code is too long, incomprehensively complex, unfair, prone to tax evasion, susceptible to political manipulation by lobbyist, and the tax rate for both corporations and individuals are excessive. Administrative, compliance, and enforcement costs are excessive.

U.S. Highest Corporate Tax Rate -- “Dozens of countries around the world – including many of the United States’ closest trading partners – have realized that sky-high corporate tax rates are an economic dead end.” Unfortunately, as of April 2011, America has the highest corporate tax rate of all industrialized nations. “Now more than ever, Americans want to see policies that will help create increased growth, more jobs, and higher standards of living – exactly the things that a lower and more streamlined corporate tax system can help achieve.” Tax Foundation president and study author Scott A. Hodge, March 11, 2011.⁸

Reducing Tax Rates – For the past 20 years America has stubbornly held the average federal, state, and local U.S. corporate tax rate at 39.2% while other countries have been reducing their corporate tax rate. “Since 2006, some 75 nations have cut their rates, many multiple times.”^{8, 17}

Between 2000 and 2010, nine (9) countries cut their corporate tax rates by double-digit figures including: Germany (22 points), Canada (13 points), Greece (16 points), Turkey (13 points), Poland (11 points), the Slovak Republic (10 points), Iceland (15 points), and Ireland (11.5 points). The Canadian government has explicitly set the goal of having the lowest corporate tax rate among the major G-7 nations.^{8, 17}

“Here’s the truth, Britain used to have the third lowest corporate tax rate in Europe,” George Osborne said in his budget speech.” ‘It now has the sixth highest... So I can today announce that from April this year corporation tax will be reduced not just by 1%

as I previously announced but by 2%..... Companies have naturally responded favourably to the move.”¹³

High U.S. Taxes Moves Jobs Offshore -- 3M moved its plant abroad in order to reduce the tax load.¹⁰

Low U.S. Taxes Will Create American Jobs -- Two independent studies concluded that U.S. exports will increase by 18%, and \$100 billion annually, respectively, if the corporate taxes based on income were eliminated. Much of the \$12 trillion dollars American multinational companies hold off shore, rather than pay 35% tax, will come flooding to America. Thus, creating millions of American jobs.⁵

Transfer Pricing -- American companies with offshore earnings are taxed at a total rate of 35% if funds are brought to the United States. Consequently, many multinational companies take advantage of a process called “transfer pricing.” Companies with facilities in countries with high tax rates use paperwork transactions to double transfer funds through Ireland or the Netherlands to countries such as the Cayman Islands and Bermuda, which depend primarily on tourist trade and have no corporate tax, in order to avoid most taxes in all countries. Google reduced its taxes by \$3.1B using this method and Facebook is working on implementing the process.

Decreasing Taxes Increases Revenue -- Contrary to popular belief, reducing taxes actually increases revenue rather than reducing revenue and creates American jobs.

Referring to the 2003 tax reduction legislation the Joint Economic Committee, United States Congress, Report, January 2007 states, “This research paper presents the case that JGTRRA played a key role in the turnaround in investment and the turnaround in the economy.”²¹

“Every time in American history that we’ve lowered the tax burden, the American people have responded with energy, imagination, and innovation. The standard of living has improved, better jobs were created, and government revenues have gone up, not down.” Former Presidential candidate Steve Forbes.³

Economist Victor Canto, Ph.D. explains it this way.

“On paper, a lower tax rate collects less per dollar of taxable income. But what politicians fail to see is that lower taxes bring more earners above ground while increasing the incentives to save, work, and invest. The net result is that both the economy and the tax base expand, which in turn allows for the provision of additional services and/or a further reduction of tax rates.”¹¹

(I suggest debt reduction)

Example 1 -- Increased Revenue and Increased Business Investment -- American companies hold an estimated \$12 T in off shore accounts rather than pay a total of 35% tax on funds brought to the United States.⁵ The *Wall Street Journal* reported that

Congress passed the American Jobs Creation Act of 2004, reducing the 35% rate to 5.25% for one year only, 2005, estimating that \$200 B would be repatriated, generating \$2.8 B in revenue. The IRS reported that 800 companies actually repatriated \$362 B (1.8X estimate) generating \$18 B (6.4X estimate) in revenue. Business investment increased 9.6%, the highest in ten-years.¹² Former Federal Reserve Chairman, Alan Greenspan, said that most of the offshore funds would come to America in months if the tax rate were reduced to zero.⁵

Example 2 -- Increased Business Investment – in 1998, Ireland with its 50% corporate tax rate and near 20% unemployment rate initiated a phased reduction of the tax rate to 12.5% over five years. The GDP increased by 9.6% the first year.¹⁶

High Costs -- Compliance cost is huge both in absolute terms and relative to the amount of tax revenue collected. The IRS estimates Americans spend 6.6 billion hours per year filling out tax forms—including 1.6 billion hours on the 1040 form alone.^{2, 7}

IRS researchers estimate the monetary compliance burden of the median individual taxpayer (as measured by income) rose from \$220 in 2000 to \$258 in 2007, an increase of 17 percent.¹⁸

The IRS annual budget (administrative, and enforcement) is \$12.5 billion. According to The National Taxpayer Advocate's (TAS) **2010** analysis of IRS data, U.S. taxpayers and businesses spend about **6.1 billion hours a year complying** with the filing requirements of the Internal Revenue Code, not including preparation for audits. That is **equivalent to more than 3 million full-time workers**.¹⁸

In **2002** Americans spent roughly \$194 billion dollars on tax compliance. That amounts to **20 cents of compliance cost for every dollar collected** by the tax system.⁷

The Tax Advocate Service (TAS) estimates that the costs of complying with the individual and corporate income tax requirements for **2008** amounted to **\$163 billion – or a staggering 11 percent of aggregate income tax receipts**.¹⁸

IRS Unfair and Not Transparent -- Taxpayers worry that they are missing tax breaks while others are benefiting from too many breaks. Tax compliance rates are low among taxpayers whose income is not subject to withholding or reporting. Individuals who would never consider stealing from a local charity have little compunction about cheating on his taxes.²

The IRS tax code is filled with a rapidly growing number of exceptions and exclusion for special-interest groups perpetuated by more than 34,000 lobbyists. There have been approximately 4,428 changes to the tax code over the past 10 years, an average of more than one a day, including an estimated 579 changes in 2010 alone.⁷

Congress and Lobbyists -- There are more than 34,000 registered lobbyists in Washington. That is more than 60 lobbyists per legislator, all vying for some special

consideration, frequently in terms of tax breaks. In 2009 federal lobbyists' clients spent more than \$3.47 billion to influence political issues, an increase of more than 5% over 2009.¹⁹

Lobbyists' Influence -- Here is an example of tax avoidance that really ticks American taxpayers off. "GE's ability to generate \$14.2 billion in profits, \$5.1 billion in the US, and end up getting back \$3.2 billion from taxpayers due to its political connections and favorable tax breaks and loopholes it has pushed through congress.... A review of company filings and Congressional records shows that one of the most striking advantages of General Electric is its ability to lobby for, win and take advantage of tax breaks. While the financial crisis led G.E. to post a loss in the United States in 2009, regulatory filings show that in the last five years, G.E. has accumulated \$26 billion in American profits, and received a net tax benefit from the I.R.S. of \$4.1 billion."¹⁵

GE, and many other companies, have gamed the IRS tax system during administrations by both political parties; however, it is presently particularly egregious. The fox is in the hen house. President Obama has designated G.E.'s chief executive, Jeffrey R. Immelt, as his liaison to the business community and as the chairman of the President's Council of Jobs and Competitiveness, and it is expected to discuss corporate taxes.¹⁵

Summary -- So, it is very clear that **major tax reform is urgently needed**. The IRS tax system is completely broken and beyond repair. It is also clear that the corporate tax rate dramatically affects economic growth, the movement of jobs, and government revenue.

Former presidential candidate Steve Forbes stated very plainly. " We can't tinkler with this tax code monstrosity or try to reform around the edges. The only thing we can do with this hideous beast is kill it, drive a stake through its heart, bury it, and hope that it never rises again to terrorize the American people."³

The Solution -- **Thus, the question becomes, what is the optimum tax policy.** A Georgia commission studying taxation for the state said this, "We currently tax the wrong things (income) versus taxing consumption and personal choices in discretionary spending."²³

The Americans for Fair Taxation (AFFT) spent \$22 billion of privately funded research to develop the "optimum" tax system. It is totally NON-PARISAN...No politicians and no lobbyist involved. Eight outstanding economists of the country led the research, starting with a blank slate and let the research lead them where it would. Extensive input by the American people was included in the research. The result is legislation now pending before Congress, The Fair Tax Act of 2011, H.R. 25 and S.13.^{1, 5}

The FairTax replaces all taxes based on income, for both businesses and individuals, [income, Social Security, capital gains, gift, estate (death), corporate, self-employed, and value-added (VAT)] with a 23% national retail sales tax at the point of final consumption only, for new goods and services only, which, unlike state sales tax, is

included in the retail price and clearly **shown on the sale receipt**. No business-to-business tax. Production is NOT taxed and consumption is taxed only once.

Who ultimately pays tax? Consumers pay tax. Corporations collect tax but, they do not pay tax as taxes are business expenses passed on to the consumer.⁵ Thus, it is logical to implement a consumption tax, i.e., a national sales tax.

Research of literature reveals 18 criteria that have been put forth for the fundamental requirements for a new tax system.^{2, 3, 4, 19} The FairTax addresses 17 of the requirements. It is up to Congress to insure that the 18th is met.

- 1- **Minimize Costs** -- The IRS with its \$12.5 billion annual budget is abolished and is replaced with a small contingency within the Treasury Department. The 11% to 20% cost compliance is replaced with 1/4% to the retailer and 1/4% of tax collected paid to 45 states for administrative fees.¹ The federal government will have to collect for five states that do not already have a sales tax. There will be no cost to companies or individuals for record-keeping or filing annual forms. Thus, enforcement costs will be reduced as well.¹
- 2- **Low Marginal Tax Rates** -- The corporate tax rate will be zero and the tax rate for the great majority of individuals will be reduced over remaining lifetime. The tax rate is negative up to the poverty level, zero at the poverty level, 11.5% at twice the poverty level, 15.3% at 3X, 17.25% at 4X, and capped at 23% regardless of expenditures.
- 3- **Broad Economic Base** -- The **tax base is doubled** as now all consumers pay tax, including: drug dealers, prostitutes, those in the underground cash economy, and 30 M to 40 M annual visitors to America.⁵
- 4- **Reduce Disincentives to Work, Save, and Invest** -- With no withholdings individuals take home more pay. Only expenditures are taxed; thus, savings and investments are not taxed, this eliminating the disincentives to work, save, and invest. At an income of 3X the poverty level, save and / or invest 10% and reduce the effective tax rate by 10% of 17.25% or 1.725%. Used goods are not taxed. Education is considered an investment therefore, tuition for education and training are not taxed.
- 5- **Progressive... No increase on mid-income families** -- While the tax rate paid is the same for all individuals, the **effective tax rate** is progressive due to a monthly pre-bate of the taxes owed on expenditures at the poverty level for legal residents. The poverty level is \$10,830 for one adult, 2X for two adults, and \$3,740 for each child. A Boston University economist examined 42 combinations of income, family size, and age. He concluded that low income families benefit from implementation of the fair tax by 26.7%, mid- income families by 10.9%, and high income families by 4.7%.⁹

- 6- **Avoid Unintended Consequences of the AMT** -- The AMT, along with all other income base taxes, are replaced with the retail sales tax.¹
- 7- **8, 9- Simple, Fair, and Industry Neutral** – The 70,000+ pages of IRS tax code is replaced by approximately 130 pages and limited implementation instructions. It is fair and industry neutral as all businesses are treated the same, and all legal residents are treated the same, no exemptions and no exceptions.^{1, 5}
- 10-**Revenue Neutral** -- The 23% rate was calculated to be revenue neutral during the first year of implementation.⁵ However, due to economic growth and job creation, revenue will increase in future years as the economy will grow significantly.
- 11-**Engage Taxpayers for Best Results** – The FairTax is based on extensive market research. Preliminary meetings, attended by hundreds of private citizens, were held in four cities. More than 20,000 individuals attended rallies in three cities. Over 1 million private individuals signed a petition of support prior to implementation of the FairTax website.⁵
- 12-**Requires Support by Taxpayers** – Today, there are FairTax support groups in all 50 states, urging their representatives and senators to support H.R 25 and S.13. I have personally talked with more than 200 individuals and only three (3) have objected to the FairTax concept. Eighty economists signed a letter of endorsement to the President, Congress and the American People.²⁰ The November 20, 1997 Congressional joint committee on taxation report states that 12 government, university, and professional economist conducted extensive analysis of the benefits of a retail tax. All twelve concluded that a consumption tax would increase long-term economic growth.²¹
- 13-**Address Revenue Neutrality Tax Code Separately from Spending** – The FairTax only addresses the issue of **revenue neutral** taxation. It is up to Congress to address the issue of decreased spending.¹
- 14-**Abolish the IRS** -- The IRS is abolished and repeal of the 16th amendment, upon which the income tax is based, is required in order to prevent dual taxing.¹
- 15-**Long Term Stability** -- Implementation of the FairTax provides long-term stability that companies can plan long term. The basic policy and philosophy of the retail sales tax remain intact, even if the tax rate is adjusted.
- 16-**Transparent** – The FairTax eliminates the 22% hidden tax imbedded in the cost of products and services. The tax consumers pay is clearly shown on the purchase receipt.

17- Border Neutral – The 22% hidden tax is removed making American companies more competitive on the international market.

18-Must be honestly evaluated by CBO -- The CBO evaluates proposals based on data and instructions from the Congress. Therefore, it is up to Congress to ensure that realistic data and instructions are provided for analysis of tax options.

Conclusion -- It is doubtful that any legislation ever presented to Congress has been based on more extensive research. Developers of the FairTax, national retail tax concept have met 17 of the 18 criteria. It is up to Congress to ensure achievement of the 18th criteria.

There is a widespread belief that the influence of “special interests” is the biggest roadblock to comprehensive tax reform. Steve Forbes stated this way, " the dirty little secret in Washington: what the politicians really fear from tax relief and tax simplification is not a loss of revenue. What they really fear is a loss of power."³

While less than 2% of more than 200 people with whom I have talked to about the FairTax have objected to the concept; all too often the comment is, “You'll never get Congress to pass it.” That is an exceeding sad testimony of public confidence in our elected representatives. Legislators are elected to represent the people of America and make decisions in the best interest of the people, not the best interest of the politicians for getting political contributions from lobbyists and special interest groups.

It is my sincere hope that legislators, as individuals and the collective Congress, will have the moral courage to do what is best for America and our future generations.

Recommendation -- Implement the Fair Tax legislation, H.R 25 and S.13, as soon as possible in order to expedite dramatic job creation for American workers and national economic recovery.

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Witness

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I am a volunteer member of the local, Huntsville, Alabama, FairTax support group; however, I have no official capacity. I submit this document as a private citizen, not as an official representative of Americans for Fair Taxation, or any other special-interest group.